



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.08

Voluntary Report - public distribution

Date: 10/11/2006

GAIN Report Number: RO6020

Romania

Grain and Feed

October Update

2006

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Report Highlights:

Romania's grain export surplus is significantly lower in MY06/07 compared to the recent years, reflecting both a reduction in cropland and lower yields because of the weather conditions in 2006. Although Romania will formally join the EU in January 2007, FASBucharest does not expect the intervention system to be extensively used by Romanian farmers, given the rising domestic prices, already well above EU intervention levels.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Sofia [BU1]
[RO]

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EXECUTIVE SUMMARY

Romania's grain export surplus is significantly lower in MY06/07 compared to recent years, reflecting both a reduction in cropland and lower yields because of the weather conditions in 2006. While in corn Post expects the country to be self-sufficient, up to 150,000 MT of milling wheat as well as another over 100,000 MT of barley (mainly of EU origin) are likely to end up in Romania.

Similarly to the situation in the 10 NMS, Romania will gradually introduce direct payments over a period of ten years. The Country Monitoring Report released by the European Commission at the end of September 2006 expresses the view that Romania could have 25% of the CAP funding withheld in 2007. Such concerns are based on Romania's delay in putting together a functional IACS system (i.e., mapping the agricultural land).

WHEAT

FAS Bucharest's MY 06/07 wheat production final estimate is revised upward to reflect larger-than-expected yields. At the same time, Post estimates that the total harvested area stood at 1.8 million HA, as damages through winterkill in January and floods in spring affected roughly 100,000 HA (which we deducted from our April cropland estimate). Overall, with an average yield of 2.64 MT/HA, we peg our wheat output estimate at 4.75 MMT. These figures are based on various sources, including satellite imagery (providing indexes of vegetative vigor), field observations and interviews with farmers and industry representatives. Aided by favorable (dry) weather, the harvesting was completed with minimal losses, so that sprouting¹ and pests (insects) were much less of a problem this year compared to the previous ones. Average yields of slightly over 3 MT/HA were recorded in the Baragan Plain (Ialomita, Calarasi), in Dobrogea (Tulcea, Constanta), in some Eastern counties (Braila, Vaslui, Bacau, Suceava) and in the Western Plain (Arad). Yields in Oltenia and some Transylvanian regions, especially where plantings were performed late last fall, were diminished drastically by the wave of arctic temperatures in January, falling levels below the national average. Overall, production was 20 percent lower than in the previous marketing year, due to reduction in both cropland and yield.

Final statistics provided by the Ministry of Agriculture show that wheat production in Romania averaged 2.64 MT/HA on a total harvested area of 2.02 million HA, resulting in a total of 5.3 MMT. This estimated production figure is thought to be somewhat high, as suggested by the unprecedented low area planted to wheat last fall, as stated by the industry representatives.

The storage industry (ANCER, the Association of the Grain Wholesalers) reports that about 1.1 MMT of wheat are deposited within their warehouse system, while a similar amount is in the other commercial silos. The balance of about 2.5 MMT is assumed to be stored on-farm.

Romanian wheat is overwhelmingly from soft winter indigenous varieties and a report released at the end of August by the Institute for Bio-resources of the Romanian Ministry of Agriculture shows that the quality of this marketing year's crop is variable, but generally good for milling purposes.

Another trait of the samples analyzed was that 36% of the wheat had a low content of wet gluten (under 20%), compared to a minimum of 22% required by the milling industry.

¹ Except for the wheat harvested in the county of Dolj (Oltenia), where sprouting was considerable.

Specialists explain that this is the result of a very hot spell in May (that stopped the protein from moving up in kernels), but consider that through blending with wheat with high gluten content, this parameter is acceptable.

The local industry also uses the so-called deformation index in assessing the quality of a wheat lot. Values for this parameter should ideally vary between 6-12 mm, while the samples analyzed showed values below 5 mm. Nonetheless, special baking technologies are employed only when the value of the deformation index exceeds 12 mm.

The falling number and foreign matter percentages revealed pretty high values in the samples analyzed, as a result of the still rudimentary agronomic practices as well as harvesting technology.

Using a 4.75 MMT production number, to which roughly 1 MMT of wheat from the inventories existing at the end of the marketing year 2005/06 add, the domestic wheat demand will be likely covered entirely from domestic production. Romania typically uses about 3 – 3.2 MMT of wheat for industrial baking, while up to 450,000 MT are earmarked for seeding purposes. With pretty modest conversion ratios especially for the livestock kept in individual households (the so-called “backyard production”, very significant in Romania for both hogs and cattle), another 1.7 MMT of wheat from this year’s crop will be channeled for feed purposes.

Up to the end of MY05/06, Romania imported 93,000 MT of milling wheat, mostly from EU (of which 76,000 MT from Hungary), under duty-free arrangements. In the last year of Romania’s pre-accession period, the TRQ for wheat originating from EU MS stood at 125,000 MT. Even after country’s accession, some limited amounts of good quality wheat will probably continue to be brought for blending purposes from neighboring countries like Hungary and Bulgaria. We anticipate that wheat imports in MY06/07 will total some 150,000 MT.

Romania could ship to EU in CY2006 an amount of 230,000 MT of wheat with no customs duties; Unlike in the recent years, when the high domestic prices led to a poor quota utilization, in the MY2005/06 Romania exported 353,000 MT to Spain, 73,000 MT to Italy, 32,000 MT to Greece and 11,000 MT to Portugal. The balance up to the 585,000 MT the country shipped in total went to countries in the Middle East and the Mediterranean Region: Israel (65,000 MT), Libya (25,000 MT), Algeria (11,000 MT), etc. In the current marketing year, Romania’s exportable surplus of wheat will stay close to 100-150 thousand MT (especially feed wheat).

Production, Supply and Demand Table

Romania							
Wheat							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate[N ew]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate[N ew]	
Market Year Begin		07-2004		07-2005		07-2006	MM/YYYY
Area Harvested	1800	1800	2100	2100	0	1800	(1000 HA)
Beginning Stocks	843	250	2108	1383	2208	1191	(1000 MT)
Production	6500	6500	5900	5900	0	4750	(1000 MT)
TOTAL Mkt. Yr. Imports	356	263	150	93	0	150	(1000 MT)
Jul-Jun Imports	356	263	150	93	0	150	(1000 MT)
Jul-Jun Import U.S.	0	30	0	0	0	0	(1000 MT)

TOTAL SUPPLY	7699	7013	8158	7376	2208	6091	(1000 MT)
TOTAL Mkt. Yr. Exports	41	30	350	585	0	100	(1000 MT)
Jul-Jun Exports	41	30	350	585	0	100	(1000 MT)
Feed Dom. Consumption	1750	1750	1800	1800	0	1700	(1000 MT)
TOTAL Dom. Consumption	5550	5600	5600	5600	0	5300	(1000 MT)
Ending Stocks	2108	1383	2208	1191	0	691	(1000 MT)
TOTAL DISTRIBUTION	7699	7013	8158	7376	0	6091	(1000 MT)

Policy

In preparation for the EU intervention system, the GOR passed in August 2006 a Decision (No. 1055/Aug. 2006) according to which the Intervention and Paying Agency for Agriculture (IPAA) of the Ministry of Agriculture is entitled to purchase wheat for public stocks from the 2006 harvest whenever domestic supply exceeds demand. IPAA is in charge of monitoring national grain inventories and the public procurement is subject to quality specifications for wheat. Eligible in the scheme are only farmers (not traders) recorded in the National Farm Register and who can submit a bid for a minimum of 80 MT and a maximum of 500 MT. The system remains in place until Romania's EU accession (January 1, 2007).

So far, the Ministry of Agriculture has not revealed any expected level of intervention (either in terms of amounts to be procured or prices), especially as wheat prices have been appreciating constantly from July. While prices prevailing in the market currently stay at US\$128- 135 in-silo, representatives of the industry expect that domestic quotations for milling wheat will stabilize at US\$160-165/MT by the end of November. Moreover, bread prices will increase more rapidly, due to two additional reasons: (i) the EU-compliance measures implemented by the Romanian Food Safety authorities as of October 1, 2006 would reportedly result in closing down about 1,500 bakery units; (ii) the need to improve the milling parameters of this harvest's wheat through corrective additives, a fairly expensive technique.

We anticipate that in the current marketing year intervention will not be extensively used in Romania (not even after January 2007), given the limited availability of grains domestically and in the region.

SAPS

Similarly to the situation in the 10 new EU member states (NMS), Romania will gradually introduce direct payments over a period of ten years with the following schedule of increments expressed as a percentage of the then applicable level of such payments in the EU-15 (2007 – 25%, 2008 – 30%, 2009 – 35%, 2010 – 40%) and thereafter in 10% increments so as to reach the support level then applicable in the EU-15.

Only direct payments will be phased in until 2016, while budgetary outlays for market support and rural development will be 100% payable at the level of EU-15 from the first year of accession.

From the first year of accession, the amounts budgeted in direct payments can be supplemented by (30%) top-ups out of national funds (or through switching Rural Development funds in the first 3 years after accession). The direct aid envelopes will be roughly €1.7 billion Romania – i.e., €430m in 2007 (the 2008 budget).

The NMS, as well as Romania and Bulgaria, were offered the option of a Single Area Payment Scheme (SAPS) for up to 3 years after accession, but the EU-25 would be able to extend this for a further period if necessary. However, unlike rules for the NMS, full cross-

compliance rules should apply at the end of 3 years regardless of whether SAPS or the Single Farm Payment is applied from then on.

SAPS provides farmers with a uniform per HA lump sum, payable once a year, regardless the crops planted and regardless whether cultivated or not (under the sole condition of maintaining the soil in proper agronomic condition). This amount is calculated yearly as a ratio between the total budgetary outlays for direct payments and the total agricultural land eligible.

The GOR officially stated that Romania will opt for SAPS. The minimum eligible farm size will be 1 HA, while the minimum eligible plot will be 0.3 HA.

Initial estimations indicate for 2007 an allocation of roughly EURO 44/HA (without top-ups). According to Agriculture Minister's Order 607/Aug 2006, a number of products are eligible for top-ups augmenting the direct payments from the EU Commission, as follows: 1st group: arable crops: wheat, rye, barley, oat, maize and sorghum, sunflowerseeds, rape seeds, peas, field beans and sweet lupine; 2nd group: industrial crops: sugar beat, rice, hops, tobacco, flax and hemp for fiber and non-GM soybeans.

The Country Monitoring Report released by the European Commission at the end of September 2006 expresses concerns that Romania could have 25% of the CAP funding withheld in 2007. Such concerns are based on Romania's delay in putting together a functional IACS system (i.e., mapping the agricultural land).

For this fall campaign, the GOR decided to continue its input support scheme through allocations of RON 150/ hectare to be planted (equivalent of USD 55/HA). These subsidies will be disbursed as vouchers for certified seed purchased before November 1, 2006 or pesticides and fertilizers procured until March 1, 2007.

Outlook for MY 07/08 will likely reflect smaller wheat plantings (current forecasts stay at 1.7 – 1.8 million HA), consistent with the needs of the enlarged common European market and the EU's mechanisms for financial support.

CORN

Corn harvesting was about 40 percent completed by the end of the first decade of October. Our current estimate for this marketing year's production is 8.5 MMT, on 2.55 million HA, adjusted downwards from our April figure in accordance with the drought-driven yield drop in July and August.

Romania exported in October 2005 – June 2006 almost 225,000 MT of corn to Spain (125,000 MT), Portugal (47,000 MT), Turkey, Italy, Tunisia, Libya, Albania, etc. We expect that corn exports in the current marketing year will halve.

Romania's typical corn production of about 9 MMT (which can easily double with proper agronomic techniques) augments the existing excess supply on the EU market. This is one of the reasons why the Ministry of Agriculture expects that the area under corn will shrink in the coming years to about 2.5 million HA, which would produce enough to meet domestic consumption (including with an expected increased use in animal feeding). Nonetheless, local farmers are watching closely the growing interest for bio-ethanol and biodiesel in Europe and worldwide, as this has the potential to become a major driver in any production pattern adjustments.

Corn in-silo prices climbed to about \$127/MT in August and reached \$145 in September, after many months in which stood close to \$100/MT. Feed compounders expect domestic bids to continue appreciating.

Production, Supply and Demand Table

Romania							
Corn							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10-2004		10-2005		10-2006	MM/YYYY
Area Harvested	3000	3000	3000	2950	0	2558	(1000 HA)
Beginning Stocks	338	341	2385	2253	2485	1573	(1000 MT)
Production	12000	12000	10300	10300	0	8500	(1000 MT)
TOTAL Mkt. Yr. Imports	34	39	0	20	0	30	(1000 MT)
Oct-Sep Imports	34	39	0	20	0	30	(1000 MT)
Oct-Sep Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	12372	12380	12685	12573	2485	10103	(1000 MT)
TOTAL Mkt. Yr. Exports	587	587	800	300	0	150	(1000 MT)
Oct-Sep Exports	587	587	800	300	0	150	(1000 MT)
Feed Dom. Consumption	6800	6800	6800	6500	0	6500	(1000 MT)
TOTAL Dom. Consumption	9400	9540	9400	10700	0	9500	(1000 MT)
Ending Stocks	2385	2253	2485	1573	0	453	(1000 MT)
TOTAL DISTRIBUTION	12372	12380	12685	12573	0	10103	(1000 MT)

BARLEY

The official overall production estimate stands at 768,000 MT, resulting from a total harvested area of 325,000 HA and a 2.36 MT/HA on average. Winter barley varieties yielded more (347,000 MT on almost 128,680 HA), while winter two-row barley accounted for a similar amount of 346,000 MT from 165,000 HA; spring two-row barley made up just the small balance.

Production, Supply and Demand Table

Romania							
Barley							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07-2004		07-2005		07-2006	MM/YYYY
Area Harvested	400	400	450	460	0	325	(1000 HA)
Beginning Stocks	165	48	328	88	278	28	(1000 MT)
Production	1400	1400	1100	1134	0	768	(1000 MT)
TOTAL Mkt. Yr. Imports	50	27	50	23	0	120	(1000 MT)

Oct-Sep Imports	50	18	50	23	0	120	(1000 MT)
Oct-Sep Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	1615	1475	1478	1245	278	916	(1000 MT)
TOTAL Mkt. Yr. Exports	187	187	200	237	0	10	(1000 MT)
Oct-Sep Exports	308	308	200	150	0	5	(1000 MT)
Feed Dom. Consumption	700	600	600	400	0	350	(1000 MT)
TOTAL Dom. Consumption	1100	1200	1000	980	0	900	(1000 MT)
Ending Stocks	328	88	278	28	0	6	(1000 MT)
TOTAL DISTRIBUTION	1615	1475	1478	1245	0	916	(1000 MT)

By the end of the MY05/06, Romania exported 237,000 MT of feed barley to Saudi Arabia (97,000 MT), Spain (77,000 MT), Jordan, Greece, Italy, Tunisia, Syria, etc.

With a production one third lower than a year earlier, we expect that the exportable surplus will be practically zero and, moreover, Romania may need to import some 100,000 MT of barley later in the season. Barley's use in livestock feeding will be slightly down, while consumption in the beer industry is expected to stay the same.

Winter barley is expected to be sown on almost 150,000 HA in the current campaign.